

# CONFIDENTIAL

**YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS. THIS ISSUE:**

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## **GEOGRAPHICAL INDICATION GRANTED TO PINHAL REGION**

The National Institute of Industrial Property (INPI) granted the Pinhal region its Indication of Origin, the fifth in Brazil for coffee. Espírito Santo do Pinhal is one of the oldest coffee producing areas in the state of São Paulo and the Geographical Indication (GI) project documented its 176 years of coffee culture and history. The project also characterized coffee production in the eight municipalities that comprise the GI as family based and mountain grown with traditional spacing and hand picking. P&A developed the GI project with the support of GSB2 (graphic design) and Qualicafex and Coopinhal (coffee quality) for the Coffee Council of the Mogiana Area (Cocampi).

Sources: O Pinhalense and Café Point



## **RAINS DURING HARVESTING TO AFFECT SPECIALTY COFFEE PRODUCTION**

Brazil's specialty coffee exports may be lower this year, after reaching 6.75 million bags in 2015, a 25% increase over 2014. Rainfall that affected important coffee areas during harvesting this year is behind the smaller output, having also affected the quality of 20% to 40% of the specialty coffees produced in the season. BSCA (Brazil Specialty Coffee Association) estimates that national specialty production corresponds to 10% to 20% of the total Arabica crop, i.e., about 8 million bags, considering the last estimate of 40.3 million bags. The United States, Japan, Korea, Australia, Taiwan and China are the main destinations of Brazilian specialty coffees.

Source: Valor Econômico

## **LOWER PRIVATE COFFEE STOCKS ARE A REALITY**

The Ministry of Agriculture's agency in charge of warehousing and crop estimates (Conab) has finally released its survey of private coffee stocks for 2014/15. The volume of 13.58 million bags in stock indicates a decline of 5.4% compared to the previous crop. Out of the total coffee stored, 92% (or 9 million bags) is held in Minas Gerais state, another 3.3 million bags are stored in Espírito Santo, Paraná and São Paulo, of which 2.5 million bags are Arabica and 760,000 bags are Conilon/Robusta. With a smaller output of Conilon in 2016, lower coffee stocks, and an expected production of less than 50 million bags in Brazil this season, the market already senses a dispute over raw material for domestic consumption and exports.

Source: CaféPoint

## **HIGHER COFFEE RETAIL PRICES DUE TO TIGHT SUPPLY**

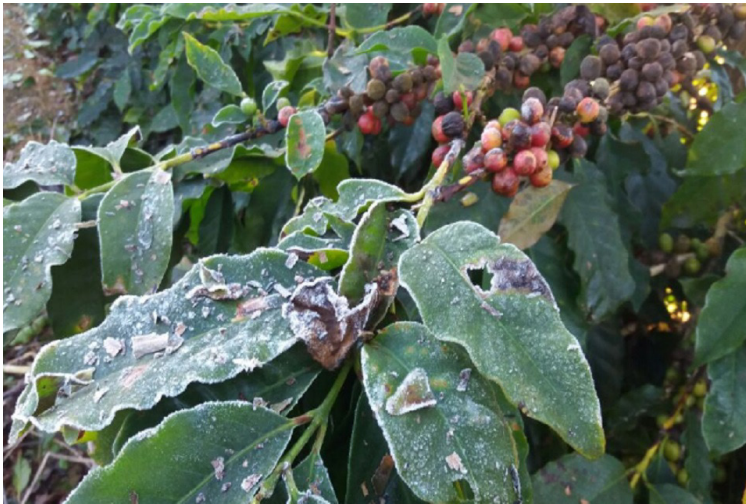
Coffee consumers are paying more for R&G coffees in Brazil. Due to the reduced Conilon production in Espírito Santo, prices rose, and caused roasters to use more Arabica in their blends whose prices also increased. At the same time, rains during the harvesting season affected the Arabica output and coffee stocks are low. Conilon prices rose 27.8% and Arabica's 31.7% between July 2015 and July 2016, causing the industry to squeeze its margins. Coffee prices to the consumer, that increased 12.8% after inflation on average over the course of one year, are about to get even higher.

Source: Valor Econômico

**WORST FROST SINCE 2000 MAY AFFECT NEXT ARABICA CROP**

Arabica coffee areas in South Minas Gerais, Cerrado, Mogiana, in São Paulo state, and Paraná were affected by a frost of medium intensity on July 17 and 18, with enough potential to affect Arabica production in the 2017/18 season. A sudden drop in temperatures coupled with extremely dry weather led to unusually low temperatures. Frosts like these can damage coffee tree branches and affect flowering expected for September 2016. Growers' losses in Alta Mogiana, in the northeastern part of São Paulo, are estimated at R\$ 1.2 to R\$ 1.5 million (US\$ 367,000 to US\$ 460,000).

Sources: Valor Econômico and De Olho No Tempo Meteorologia



**DIGITAL INCLUSION PROGRAM PROMOTES SUSTAINABILITY**

The Informed Grower Programs, created by the Brazilian Coffee Exporters Association (Cecafé) in 2006 to promote the digital inclusion of smallholders in all coffee producing regions, plans to train around 1,500 growers this year. Since 2015, the project has established a partnership with IDH's Sustainable Coffee Program, now Global Coffee Platform, coordinated by P&A in Brazil, to disseminate good agricultural practices with emphasis on sustainability. The 13th edition of the program held in the first semester reached 785 growers and rural workers, both men and women, in 42 municipalities of Minas Gerais, Espírito Santo, São Paulo and Rondônia, covering an area of 8,000 hectares of coffee.

Source: CaféPoint

**MAPPING OF COFFEE AREA WITH GOOGLE EARTH AND DRONES**

The Technical Assistance and Rural Extension Institute of Minas Gerais (EMATER-MG) has started work to map the coffee areas in Minas Gerais state. Until the end of 2016 there will be more precise knowledge of the area planted with coffee in 50 municipalities that account for half of the state production. Mapping will cover 475 municipalities in 2017. Google Earth images are compared to satellite images and the data is then sent to field technicians to be validated with the help of drones. Emater signed a R\$ 4 million (US\$ 1.2 mi) agreement with the Economic Development Company of Minas Gerais (Codemig) to buy cars, drones, software, computers and other equipment.

Source: Emater-MG

**AGREEMENT TO HELP IMPROVE COFFEE PRODUCTION IN ESPÍRITO SANTO**

The Agricultural Research and Extension Services Institute of Espírito Santo (Incaper) has recently signed an agreement with Embrapa Café to train technicians and coffee growers towards sustainability. The agreement aims to increase the efficiency of production (especially during droughts) and the quality of coffee grown in the state, be it Arabica or Robusta/Conilon. Several actions, such as capacity building workshops for small growers, technical assistance, renovation and expansion of facilities that produce seedlings, among others will be developed in 2016 and over the next 3 years, financed by the Coffee Research Consortium.

Source: CaféPoint

**STARTUP USES COFFEE PULP TO CREATE FERTILIZER**

A French-Brazilian startup is developing a high technology project with support from the French government with the objective of recycling coffee pulp and transforming it in charcoal to be later used as fertilizer. Since 80% of the fertilizer used in coffee plantations in Brazil is imported, the idea is to find a more sustainable and profitable way to fertilize the crop. The process to transform pulp into charcoal uses pyrolysis, a method that allows for higher quality biomass that can be used in smaller quantities. The project is focused on Arabica coffee and the company plans to establish future partnerships with Brazilian coffee cooperatives.

Source: Valor Econômico

**COCA-COLA ENTERS COFFEE MARKET IN BRAZIL**

Coca-Cola is about to launch its coffee in Brazil. The company's new product, under the Leão brand (known for mates and iced teas), will be officially launched on August 6, the first day of the 2016 Olympics, to be held in Rio de Janeiro. During the occasion, more than 20 coffee machines will be installed at the Olympic Park and food plaza. The company has been diversifying its range of products given the global decline in the consumption of soft drinks. The new Leão Arabica Coffee will be offered in the roasted and R&G versions and will soon be available in supermarkets and specialized stores in Rio de Janeiro, São Paulo and Curitiba.

Source: Valor Econômico

**P&A BREAKING NEWS**

P&A was in the news several times in July. Besides its work in the Pinhal GI project (see above), the director and partner Carlos Brando was chosen as Agribusiness Personality of 2016 by the prestigious Campinas Agronomy Institute (IAC), joined the Coffee Chamber of the Brazilian Stock and Commodity Exchange BM&F Bovespa and was elected vice-chairman of the civil society organization that manages the Coffee Museum in Santos and the Museum of Immigration in São Paulo.

Sources: São Paulo Coffee Chamber, Pinhal News and P&A

**Brazilian Prices**

Main Producing Regions / Farm Gate

July 29, 2016

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	535,00 ↑	Colatina-ES fair average price 418,00 ↑	
Mogiana	530,00 ↑		
South Minas	530,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	605,00 ↑	Sep 2016	173,70 ↑
South Minas	600,00 ↑	Dec 2016	178,00 ↑
		Mar 2017	183,70 ↑
		Real R\$ / Dolar US\$	
		July 29, 2016	3,24 ↑

+ 14.1%

Source:

www.qualicafex.com.br

## PINHAL: THE COFFEE AND WINE TERROIR

Recently recognized as a Geographical Indication (GI) due to its proven history of production of quality coffees, Pinhal is the only officially recognized coffee terroir that also produces high quality wines in Brazil and perhaps in the world.

The Pinhal GI crowns a 6-year effort to demonstrate to the Brazilian Institute of Intellectual Property that the region around the town of Espírito Santo do Pinhal qualifies as an “Indicação de Procedência”, one of five only in Brazil associated with coffee production. The later part of this 6-year period coincided with the launching of the high quality wines produced in the municipality of Pinhal from grapes grown in some of the very same terroirs where the coffee trees thrive. Coffee and wine lands are literally side by side!

If Pinhal coffees have long been known, Pinhal specialty coffees more recently, coming from the same highlands where the grapevines grow, the award winning wines have only hit the market in 2014 with two splendid red shirazes. The production of Guaspari wines takes place on traditional coffee farms some of whose old buildings are literally used in the agricultural and industrial winery operations while coffee and grapevine fields stand next to each other.



Source: Guaspari Winery

Coincidences do not stop there. Coffee harvesting, that takes place from October/November to February/March in the tropical belt above and below the Equator eventually moved to April/May to July/August in more temperate Brazilian coffee lands, from wet to dry months that favor post-harvesting processing. Novel pruning techniques moved the Pinhal grape harvesting season from the wet months of the Brazilian summer, as done in the grapevine fields of Southern Brazil, to the dry winter months whose temperature range, sunshine and lack of rain are similar to the great wine regions of the world.

Coffee arrived in the Pinhal region in the mid-nineteenth century when African slaves were being replaced by Italian immigrants as labor on the farms, reason why Espírito Santo do Pinhal’s population is predominantly of Italian origin. Pinhal was one of the largest and most influential coffee centers in Brazil in the first three decades of the twentieth century. Most of the architectural landmarks – churches, theater, public buildings, monuments – and preserved coffee mansions, P&A’s office included, date back to this period. Subsequently, Pinhal became a major coffee exporting hub – at one point it accounted for 15% of Brazil’s exports – and eventually the largest coffee processing machinery manufacturing center in the world with a market share that keeps increasing. Today, Pinhal remains known in the coffee business as a source of high quality and specialty coffees in keeping with the recently obtained GI.

The Guaspari wine project started in 2001 when very favorable conditions for viticulture were identified in the coffee highlands of Espírito Santo do Pinhal. The different portions of the vineyard terroirs are harvested and vinified separately. The syrah wines stand out for their smooth adaptation to the region as expressed in the wine nuances and witnessed by recent awards. The Syrah Vista do Chá 2012 has just received the gold medal and the Syrah Vista da Serra 2012 the bronze medal in the prestigious Decanter World Wine Awards. It is a unique distinction for a Brazilian wine made in the Pinhal Region to be top of the world.

The Pinhal GI project is also unique in the sense that it was 100% developed within the origin itself by Pinhal-based companies: P&A consulting was in charge of the project, advertising agency GSB2 designed the logo, and specialty coffee exporter QualicaféX along with the local coffee growers’ cooperative Coopinhal developed the quality parameters.

Local restaurant Opção, that offers international cuisine with a regional touch, has dishes seasoned or flavored with Pinhal-origin coffees from Santana Farm and serves Guaspari and other regional wines besides Exotic, a 100% Pinhal-Region-Arabica coffee brand. Opção restaurant is the favorite dining-spot for the local coffee business and visitors who come to Espírito Santo do Pinhal after its coffees *and* wines!

## HULLERS FOR NATURAL, PULPED NATURAL AND HONEY COFFEES

The trend to dry coffee with the full pulp (naturals) or without the pulp but with some or all mucilage (pulped natural or honey) requires machines – mechanical siphons, pulpers, mucilage removers, driers and hullers – that are designed to process these specific products in order to get the best possible quality out of them. Previous Confidential issues have covered some if not all of these machines but it is time for hulling to be addressed again.

Besides heating coffee and causing weight losses, friction hullers and hullers-polishers used for washed coffee do not hull dry cherry coffee – naturals – and jam when hulling parchment dried with mucilage. Pinhalense offers a family of “cold” coffee hullers specially developed to process these products without weight loss and minimum physical damage.

Quality gains apart, these Pinhalense hullers can increase yields by up to 2% by retaining the original moisture level of incoming coffee – no heating – and avoiding losses of light materials. These hullers are usually part of an integrated, combined machine that includes pre-cleaning, destoning, repassing of unhulled cherries or parchment, polishing, gravity separation in a catador and size grading. The heart of the machine is the cold cross-beater huller with an oscillating screen to separate and repass unhulled coffee. The other items are all optional depending on the version chosen, most of them coming with a destoner.

The best-selling Pinhalense CON line of combined units for natural, pulped natural and honey coffees comes with a pre-cleaner (optional), fluid-bed destoner, cold huller with oscillating screen separator and pre-grader, and catador that separates by density two coffee sizes simultaneously. Available in four sizes, the CON line offers capacities of 600, 900, 1,200 and 1,800kg of green coffee per hour.

The smaller C2DRC, with capacity of 300kg of green coffee per hour, has a cold huller with oscillating screen and size grader to separate large, medium and small beans. This small hulling and grading set can be equipped with a huller-polisher for washed coffee in its version C2DPRC.

The CON-8X, for 1,200kg of green coffee per hour, can be assembled on a truck bed or tractor cart to create the CONAM mobile combined hulling set that can go from farm to farm to process natural, pulped natural and honey coffee and to leave the coffees husk behind to be used as a fertilizer or fuel for coffee driers.

All machines described above are also key components for micro-lot milling.



CON-8X



C2DPRC



CONAM ON A TRACTOR CART



CONAM ON A TRUCK BED